

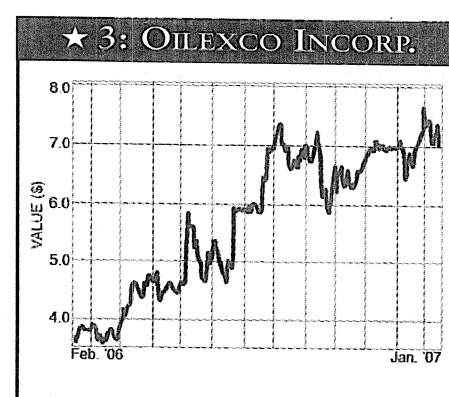
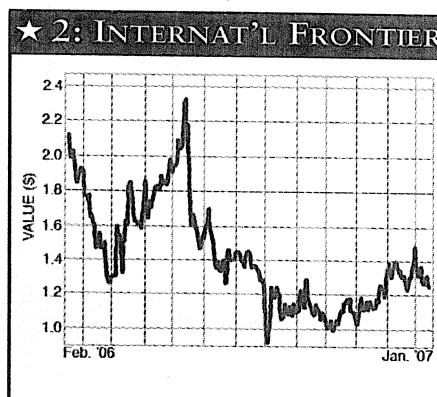
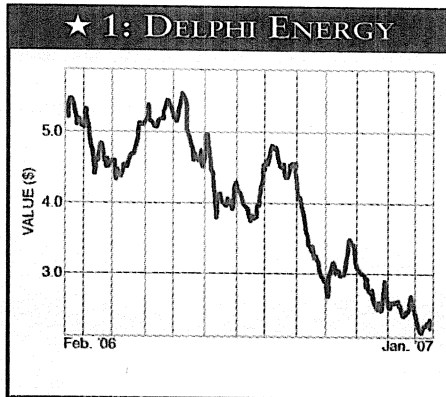
A V E I R O

See Page 4

Financial Edge

AEC
International

See
Page
25



Schachter sees energy sector volatility ahead

Geopolitical threats, weather are wild cards

(Business Edge writer Sasha Konotopetz regularly profiles the top stock picks of some of Canada's most accomplished investment pros.)

FEATURED PRO:

Josef Schachter is president of **Schachter Asset Management**, a Calgary firm that specializes in institutional research in the oil and gas sector.

Schachter's Strategy: "The (warm) weather has been a bit of a problem and of course there has been no winter on the east coast of the United States and Canada, so (oil) prices have come from the high seventies (US per barrel) into the mid-sixties and now into the mid-fifties. We think that these levels – \$6.40



Josef Schachter

PRO'S 3 STARS

(US mcf) for natural gas and mid-fifties for oil – are probably the bottom.

"Demand is still pretty robust around the world except for the east coast of the United States and Canada. Inventories are in pretty good shape. If you get back to a more normal trend and you don't have the El Nino effect and with China's build of a strategic reserve and the OPEC (Organization of Petroleum Exporting

Countries) cut-backs, we don't see prices going lower by winter '07/'08. Any sabre rattling with Iran, any more (geopolitical threats) with Venezuela and any disruption of supply because of hurricane season would get things going a lot quicker.

We think (oil) prices will move north toward \$70 and natural gas will move to about

\$8 or \$9 by the end of the year."

FIRST STAR

■ **Delphi Energy Corp.** (TSX:DDE)

■ **Recent Price:** \$2.30.

■ **52-Week Range:**

\$2.30-\$5.86.

■ **Snapshot:** Delphi Energy is a junior oil and natural gas

company with wells in north-eastern B.C. and northwestern and east-central Alberta.

■ **CEO:** David Reid.

■ **Head Office:** Calgary.

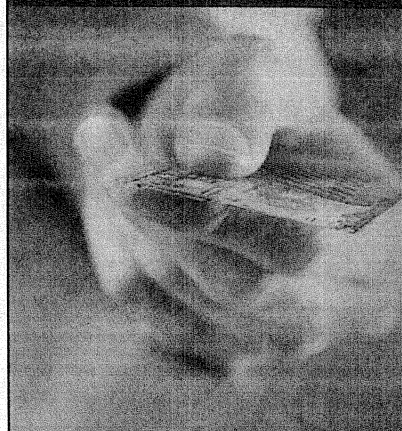
■ **Vital Stats:** Price/Earnings Ratio, 9.4; Revenue (last 12 mos), \$86 million; Earnings (last 12 mos), \$13 million; Market Cap, \$139.5 million; Shares Outstanding, 60.7 million.

■ **Schachter's View:** "

(Delphi Energy) is producing about 5,200 boe (barrels of oil equivalent) a day right now. They are going to be adding in an exploration success at Tower Creek (at Leduc), which should come on at the end of (the first quarter).

See 3 STARS Page 16

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Senior Investment Advisor

Exploration company has 'strong' partners

"The company, because it's a gas producer, is hedged (on commodity prices) because it had a lot of debt. One of the only negatives to us is that their debt is twice their cashflow, but they've hedged between 30 and 47 per cent of their production. They've also sold some non-core assets for about \$16 million so that they can survive a difficult market here until commodity prices recover. We like the core areas that they have in northwest Alberta and northeast B.C. If we get back to \$9 and \$10 natural gas prices by the end of '07, this stock could see north of \$5."

■ **Risk Rating:** High.

■ **Web Watch:**

www.delphienergy.ca

SECOND STAR

■ **International Frontier Resources Corp.** (TSXV:IFR)

■ **Recent Price:** \$1.32.

■ **52-Week Range:** \$0.86-\$2.48.

■ **Snapshot:** International Frontier Resources is an exploration company targeting high-risk oil and gas prospects in the frontier areas of the Northwest Territories and the U.K. North Sea.

■ **Vital Stats:** Revenue (last 12 mos), N/A; Market Cap, \$55.5 million; Shares Outstanding, 42 million.

■ **CEO:** Pat Boswell.

■ **Head Office:** Calgary.

■ **Schachter's View:** "This is a high-impact exploration story. (International Frontier) has very strong partners. They are going to be drilling three wells in 2007. The first one should start at the end of (the first quarter). They have a 10.45 (per cent) carried interest in a play where Oilexco (Schachter's Third Star) will be drilling (in offshore U.K.), which could have three targets for oil and (produce) hundreds of millions of barrels of oil. The company is sitting on \$12 million in cash, so they can pay their own way too, but they have these plays where they've farmed in other people who have the ability to drill with rigs. What we like about their Canadian assets is that they're partnered with Husky in the central Mackenzie Valley and there has been quite a bit of success there. This is a speculative drilling story - it's not a cashflow story. We have a target of \$3."

■ **Risk Rating:** High.

■ **Web Watch:**

www.internationalfrontier.com

THIRD STAR

■ **Oilexco Incorporated** (TSX:OIL)

■ **Recent Price:** \$7.23.

■ **52-Week Range:** \$3.52-\$8.18.

■ **Snapshot:** Oilexco is a production oil and gas company with properties located in the central North Sea in the U.K. and in Alabama in the U.S. The company is focused on increasing production in the outer Moray Firth area of the U.K. North Sea, which has produced more than four billion barrels of oil.

■ **Vital Stats:** Revenue (last 12 mos), \$8.1 million; 5-Yr Revenue Growth, 38.8 per cent; Earnings/Loss (last 12 mos), \$47.3 million loss;

Market Cap, \$1.42 billion; Shares Outstanding, 197 million.

■ **CEO:** Arthur Millholland.

■ **Head Office:** Calgary.

■ **Schachter's View:**

"(Oilexco) is in the final stages of hooking up the Brenda Field Development (offshore U.K.), which will bring on 30,000 boe a day. That will generate over \$3 annualized cashflow (per share) or over \$5 million of cashflow, so this is a very cheap stock here from just that alone. The company's balance sheet is strong. They have a rolling credit line with the Royal Bank of Scotland for development drilling of different plays. This is one we've been with for a while and we kept on raising our target. Now, our target is \$13."

■ **Risk Rating:** Medium.

■ **Web Watch:**

www.oilexco.com

■ **Schachter's Edge Record** (last 12 mos): -12.8 per cent.

■ **Best Pick:** International Frontier Resources (TSXV:IFR) +25.7 per cent.

■ **Worst Pick:** Sterling Resources Ltd. (TSXV:SLG) -40 per cent.

■ **Disclosure:** Schachter Asset Management provides research on the featured companies for Maison Placements Canada and members of Schachter Asset Management have positions in all three stocks. Maison Placements has been involved in financing for Oilexco in the past 12 months.

(This feature is provided for informational purposes. Investors are advised to do their own research or consult a qualified investment professional before making investment decisions.)

GOLF from Page 13

Climate-change issue invigorating life challenge

"I play golf, but not enough to make me a good (golfer.) Right now, I'm reading *Nixon in China* by Margaret MacMillan. I've read that book *Team of Rivals* by (Doris Kearns Goodwin) about (Abraham) Lincoln's cabinet. I tend to like books that are biographical or historical,

it to commercialization. My goal would be to try and give that back to other people."

(Monte Stewart can be reached at monte@businessedge.ca)

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